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<u>MEMORANDUM</u>

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TO:

Ernest G. Johnson GA For EGJ
Director

2008 JAN 17 P 2: 26

FROM:

Utilities Division

DATE:

January 17, 2008

RE:

THE MATTER OF **OWEST CORPORATION'S PERFORMANCE**

ASSURANCE PLAN. (Docket No. T-01051B-03-0859)

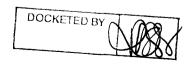
As required by a Procedural Order filed September 19, 2007, attached is Staff's Report in this matter.

Staff recommends that the Arizona Corporation Commission join in a 14-State Six-Month Review or, in the alternative, initiate an independent Six-Month Review as provided by Section 16.0 of the OPAP.

EGJ:AFF:tdp

Originator: Armando Fimbres

Arizona Corporation Commission DOCKETED JAN 1 7 2008



Service List for: Qwest Corporation Docket No: T-01051B-03-0859

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STAFF REPORT UTILITIES DIVISION ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST CORPORATION'S PERFORMANCE ASSURANCE PLAN

DOCKET NO. T-01051B-03-0859

JANUARY 17, 2008

STAFF ACKNOWLEDGMENT

The Staff Report for Qwest Corporation's Notice Of Stipulation Regarding Certain Performance Indicator Definitions And Qwest Performance Assurance Plan Provisions And Joint Motion To Approve Same On Behalf Of The Stipulating Parties was the responsibility of the Staff members listed below:

Armando Fimbres Utilities Analyst V

EXECUTIVE SUMMARY QWUEST CORPORATION DOCKET NO. T-01051B-03-0859

On June 12, 2007, Qwest Corporation ("Qwest"), Eschelon Telecom, Inc. ("Eschelon"), DIECA Communications, Inc. d/b/a Covad Communications Company ("Covad"), and McLeodUSA Telecommunications Services, Inc. ("McLeodUSA"), (together the "Stipulating Parties") filed an application for approval of a stipulation regarding certain Performance Indicator Definitions and Owest Performance Assurance Plan provisions ("2007 Stipulation")

Staff recommends that the Stipulation be subject to an examination in a Six-Month Review.

In addition to reviewing the 2007 Stipulation, Staff recommends that the Commission utilize the Six-Month Review process to review the effectiveness of Qwest's alternative process to the Long Term PID Administration ("LTPA") as well as examine the need for other PIDs and QPAP changes.

Section 16.0 of the QPAP provides that "Every six (6) months, Qwest, CLECs, and the Commission shall review the performance measurements to determine whether measurements should be added, deleted, or modified; whether the applicable benchmark standards should be modified or replaced by parity standards; and whether to move a classification of a measure to High, Medium, or Low or Tier-1 to Tier-2. The criterion for reclassification of a measure shall be whether the actual volume of data points was less or greater than anticipated. Criteria for review of performance measurements, other than for possible reclassification, shall be whether there exists an omission or failure to capture intended performance, and whether there is duplication of another measurement. The first six-month period will begin upon the FCC's approval of Qwest's 271 for the State of Arizona. Any changes to existing performance measures and this remedy plan shall be by mutual agreement of the parties. Qwest acknowledges that the Commission reserves the right to modify the PAP at any time it deems necessary upon Commission Order after notice and hearing."

The Commission has two options with respect to conducting a Six-Month Review. Those are as follows:

- 1. the Arizona Corporation Commission could join in a 14-state Six-Month Review. The 2007 Stipulation has been filed in multiple jurisdictions. Arizona may benefit from a combined review with other States. However, recent events suggest that 14-state review is unlikely.
- 2. the Arizona Corporation Commission could perform its own independent Six-Month Review consistent with Decision 68240 and Section 16.0 of the QPAP.

Of these two options, Staff recommends that the Commission join in a 14-state Six-Month Review. However, if the 14-state Six-Month Review is not conducted, then Staff recommends that the Commission order its own Six-Month Review.

Staff further recommends that either Six-Month review approach have as its objectives, the following:

- Review2007 Stipulation to ensure it is in the public interest,
- Review of all performance measurements to determine whether measurements should be added, deleted, or modified, and;
- Review of the Change Management Process to determine if all parties agree that its use is satisfactory compared to the Long Term PID Administration process and, if not, recommend corresponding changes.

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I. Introduction

On June 12, 2007, Qwest, Eschelon, Covad and McLeodUSA filed an application for approval of a stipulation which modified Performance Indicator Definitions ("PIDS") and Qwest Performance Assurance Plan ("QPAP") provisions ("2007 Stipulation").

The Stipulating Parties requested that the Commission approve the 2007 Stipulation, apply the agreed upon changes to the QPAP to any interconnection agreements containing the PAP, and allow the "PIDs" to take effect.

By Procedural Order dated September 19, 2007, Competitive Local Exchange Carriers ("CLECs") were given the opportunity to file written comments on the Stipulation on or before November 19, 2007.

Between September 24, 2007 and November 16, 2007, Cox, Covad, Eschelon, National Brands Inc. ("National Brands") and XO Communications ("XO") submitted requests to remain on the service list for this docket. No comments were filed by any party by November 19, 2007.

On December 17, 2007, Qwest filed Reply Comments as ordered by the September 9, 2007 Procedural Order.

Staff hereby files its Staff Report as required by the September 9, 2007 Procedural Order.

II. Background

On June 5, 2002, in Decision No. 64888, as part of the Section 271 approval process, the Commission approved the Qwest QPAP.

The QPAP is Exhibit K to Qwest's Statement of Generally Available Terms and Conditions ("SGAT"). The QPAP employs PIDs to measure Qwest's performance. The PIDs are set forth in Exhibit B to Qwest's SGAT.

The QPAP was intended to provide an incentive for Qwest to continue to provide adequate service to wholesale customers following its Section 271 approval. The Plan provides individual CLECs with Tier 1 payments if Qwest does not provide parity between the service it provides to CLECs and that which it provides to its retail customers or if Qwest fails to meet applicable benchmarks. As added incentive, the QPAP provides the Commission with Tier 2 payments if Qwest fails to meet parity and benchmark standards on an aggregate CLEC basis.

The QPAP became effective when Qwest received Section 271 authorization from the Federal Communication Commission ("FCC") on December 15, 2003.

Section 16.0 of the QPAP provides for Six-Month Reviews of the Plan.

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A Procedural Order dated June 18, 2004, established a process for interested parties to submit comments on the scope of the QPAP's first Six-Month Review proceeding and other related issues.

Since Qwest and the CLECs had recently concluded a Six-Month Review in Washington State, the parties utilized the results of the Washington proceeding to narrow the issues in dispute in Arizona. On November 1, 2004, MCI, Eschelon, AT&T, Covad, Qwest and Staff filed a Stipulation which indicated that they had resolved all outstanding issues, except the issue pertaining to the LTPA process, raised in the Six-Month Review.

By Decision 67575 dated February 15, 2005, the Commission approved the revisions to the PIDs and QPAP as proposed in the Stipulation filed on November 1, 2004.

Through Decision 68240 dated October 25, 2005, the Commission ordered that parties and Staff should engage in further discussions to determine if Qwest's alternative process to LTPA could be improved. The Commission further stated that if experience with the Qwest process indicated it was unfair or ineffectual the parties could propose and examine an alternative process in the next Six-Month Review.

III. Staff Analysis

In its December 17, 2007 Reply Comments, Qwest asked that the 2007 Stipulation be approved and that no further Six-Month Review be conducted. Qwest's request was based upon the fact that no comments were filed by any CLECs on the proposed Stipulation.

Since the last Six-Month Review was conducted in 2004, Staff believes that a full Six-Month Review is appropriate at this time. Qwest's reasons for not conducting a further review and truncating the process at this point are not persuasive.

First, the fact that no CLECs filed comments to the proposed Stipulation does not mean that a full six-review would not be productive and informative to the Commission. As already indicated, it has been approximately three years since the last Six-Month Review. In addition, Staff was not a participant or signatory to the 2007 Stipulation.

Furthermore, the perceived lack of interest is not unusual among the CLECs, many of whom are struggling in a highly competitive environment and have few resources to devote to long and complex proceedings. In Staff's experience few CLECs participate in any generic matter unless specifically ordered by the Commission. In addition, at least one CLEC, Cox Arizona Telcom, was not one of the Stipulating Parties but did request to remain a part of these proceedings. There are many other CLECs operating in Arizona that are not signatories to the 2007 Stipulation. During the period in which the 2007 Stipulation was developed, one of the

¹ To date, only one Six-Month Review has been conducted.

Stipulating Parties, Eschelon, filed a complaint² against Qwest involving the very PID management process that Qwest has advocated as the alternative to the LTPA. One of Staff's recommendations in the Eschelon complaint proceeding was that a new PID be developed to track Qwest's performance on expedites. In addition, since the last Six-Month Review the Commission is conducting a Loop Qual audit, the results of which may have some relevance to a new Six-Month Review process.

Finally, during the last three to five years, there have been major changes to both technology and market dynamics in this industry. Many CLECs have exited the residence³ local exchange market, merged with other providers⁴ or been acquired by other providers⁵. At the same time there continues to be a migration from circuit switched landline technology to other technologies such as Voice over Internet Protocol ("VoIP")⁶ and wireless. With changes to more advanced network technology comes the need to ensure that the PIDs continue to adequately measure and track Owest's performance.

To add further context relevant to the next Six-Month Review, Staff offers the following summary of monthly QPAP payment information for consideration:

		Gross Tier 1		Gross Tier 2	Gross Tier 1 & 2
Partial 2004	\$	139,115	\$	146,100	\$ 285,215
2005	\$	728,718	\$	649,000	\$ 1,377,718
2005	\$	443,261	<u> </u>	318,300	
	<u> </u>		\$	<u>-</u>	
2007	\$	506,555	\$	351,200	\$ 857,755
Total	\$	1,817,649	\$	1,464,600	\$ 3,282,249

Staff notes that Qwest made considerable payment improvements from 2005 to 2006. The improvement, however, decreased noticeably from 2006 to 2007.

Moreover, the following chart is another example of a pattern of Qwest's performance under three PIDS which Staff believes requires examination in a Six-Month Review. The results show wide swings in monthly PID performance by Qwest that suggest some modification to two of these PIDS may be desirable.

OP-3: Installation Commitments Met

OP-4: Installation Intervals

OP-5: New Service Installation

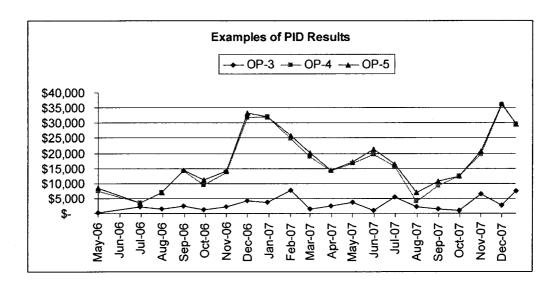
² In the matter of the Formal Complaint of Eschelon Telecom of Arizona, Inc. against Qwest Corporation, T-03406A-06-0257

³ E.g., AT&T previous to being acquired by SBC

⁴ E.g., Eschelon and Mountain Telecommunications

⁵ E.g., MCI by Verizon

⁶ E.g., Cox Telcom



Finally, the Six-Month Review process should also be used to evaluate Qwest's alternative LTPA process. Business disagreements involving PIDS have not been absent from this Commission since Qwest shifted from the LTPA to the alternative process. The Eschelon Complaint is a prime example of the concern expressed in Decision 68240, Finding 25 – "Under Qwest's proposal, the CLECs fear that they may be forced to litigate more PID disputes at the Commission, rather than reaching agreement in a collaborative process." The Eschelon Complaint, involving Qwest's alternative process has yet to be fully resolved.

IV. Staff Recommendations.

Staff recommends that the Stipulation be subject to an examination in a Six-Month Review.

In addition to reviewing the 2007 Stipulation, Staff recommends that the Commission utilize the Six-Month Review process to review the effectiveness of Qwest's alternative process to the Long Term PID Administration ("LTPA") as well as ensure the need for other PIDs and QPAP changes.

Section 16.0 of the QPAP. provides that "Every six (6) months, Qwest, CLECs, and the Commission shall review the performance measurements to determine whether measurements should be added, deleted, or modified; whether the applicable benchmark standards should be modified or replaced by parity standards; and whether to move a classification of a measure to High, Medium, or Low or Tier-1 to Tier-2. The criterion for reclassification of a measure shall be whether the actual volume of data points was less or greater than anticipated. Criteria for review of performance measurements, other than for possible reclassification, shall be whether there exists an omission or failure to capture intended performance, and whether there is duplication of another measurement. The first six-month period will begin upon the FCC's approval of Qwest's 271 for the state of Arizona. Any changes to existing performance measures and this remedy plan shall be by mutual agreement of the parties. Qwest

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acknowledges that the Commission reserves the right to modify the PAP at any time it deems necessary upon Commission Order after notice and hearing."

The Commission has two options with respect to conducting a Six-Month Review. Those are as follows:

- 1. the Arizona Corporation Commission could join in a 14-state Six-Month Review. The 2007 Stipulation has been filed in multiple jurisdictions. Arizona may benefit from a combined review with other States. However, recent events suggest that 14-state review is unlikely.
- 2. the Arizona Corporation Commission could perform its own independent Six-Month Review consistent with Decision 68240 and Section 16.0 of the QPAP.

Of these two options, Staff recommends that the Commission join in a 14-state Six-Month Review. However, if the 14-state Six-Month Review is not conducted, then Staff recommends that the Commission order its own Six-Month Review.

Staff further recommends that either Six-Month review approach have as its objectives, the following:

- Review2007 Stipulation to ensure it is in the public interest,
- Review of all performance measurements to determine whether measurements should be added, deleted, or modified, and;
- Review of the Change Management Process to determine if all parties agree that its use is satisfactory compared to the Long Term PID Administration process and, if not, recommend corresponding changes.

Nebrazka Jublic Service Commission

COMMISSIONERS: ANNE C. BOYLE ROD JOHNSON FRANK E. LANDIS TIM SCHRAM GERALD L. VAP

EXECUTIVE DIRECTOR:



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NEBRASKA CONSUMER HOTLINE: 1-800-526-0017

November 26, 2007

Laurel Burke Qwest Legal Department 1801 California Street Tenth Floor Denver, Colorado 80202

Ms. Burke:

As vice-chair and on behalf of the Qwest Regional Oversight Committee (ROC), I am writing to you requesting further information regarding the proposed changes to the Performance Assurance Plans (PAP) contained in a stipulated agreement filed by Qwest in each of the 14 states in its territory during the week of June 26, 2007.

The 14 states in Qwest's territory have dealt with the proposed PAP changes differently and some have approved or allowed changes to go into effect in their state. However, questions still remain concerning the PAP. Specifically, they pertain to the changes in the Performance Indicator Definitions (PIDs) and the resulting reduction of the Tier 1 and Tier 2 payments.

In the interest of having definitive answers concerning our remaining questions, the ROC submits the following regional data request concerning the proposed changes to the PAP and PIDs. A uniform answer from Qwest will avoid misinterpretation and will be the most efficient way to deal with the remaining questions. As a Commissioner who has been involved with the collaborative effort since its inception and witnessed the benefits that came from this cooperative effort, it is not only troubling, it is puzzling as to why Qwest would attempt to withdraw from this orderly and efficient process. On behalf of the ROC, I sincerely hope you consider our requests so that we may continue to make reasoned and efficient decisions regarding your proposals.

ROC hereby submits the following Data Requests to Qwest Corporation:

Procedural Request/Clarifications

- 1. Would Qwest be willing to suspend the procedural schedules for the filings that have not been acted on and participate in a multi-state six month review?
- 2. Will Qwest confirm that proposed Exhibits B and K are not being offered or put into effect until they have been approved by an individual state.
- 3. Would Qwest be willing to update its website to include commission order references for all Exhibits B and K?

Data Requests

1. Please provide evidence (spreadsheets, etc) supporting the following statement from Qwest's Narrative filed in Washington:

In all the other states where Qwest pays Tier 2 payments consistent with the structure it has proposed in the Settlement for Washington, Qwest states that its performance is comparable to that in Washington, indicating that the higher Tier 2 payments in Washington do not create materially better performance than in other states that already operate under the proposed Tier 2 structure..." (Page 11, Qwest Narrative.)

- 2. Please provide by state and product, sales and performance summaries for low volume products proposed for removal from disaggregation.
- 3. Please provide a spreadsheet of individual PAP payments Qwest made to all CLECs for each month in the period from July 2006 to June 2007, sorted by month, measure, state, and CLEC. (Use the same masking codes as used in Washington to protect company names.)
- 4. Please provide the individual PAP payments to all CLECs had the proposed changes been in effect for each month in the period from July 2006 to June 2007, sorted by measure or PAP change, state, and CLEC. (Use the same masking codes as used in Washington to protect company names.)
- 5. Please provide a spreadsheet showing actual Tier 2 payments that Qwest made to each of the individual 14 states in Qwest's region, as well as the aggregate, for the most recent 24 months for which performance results and payments are available. For the same period, show those payments as if each proposed change affecting Tier 2 payments had then been in effect. Finally, state the difference between each actual and "as if" payment (dollar increase, dollar decrease, or no impact).
- 6. Please provide a spreadsheet showing actual Tier 1 payments that Qwest made to each of the individual 14 states in Qwest's region, as well as the aggregate, for the

most recent 24 months for which performance results and payments are available. For the same period, show those payments as if the proposed change regarding one allowable miss had then been in effect. Please do the same for the proposed removal of low volume products, and for proposed tiered minimum payments. Finally, state the difference between each actual and "as if" payment (dollar increase, dollar decrease, or no impact).

- 7. Please list all CLECs currently operating in any part of Qwest's 14-state region that have adopted the QPAP. If the company only operates in part of the region, specify which states.
- 8. Identify each proposed PID or PAP change that will result or is estimated to result in reducing Qwest's Tier 1 and/or Tier 2 payments.
- 9. Identify each proposed PID or PAP change that will result or is estimated to result in increasing Qwest's Tier 1 and/or Tier 2 payments.
- 10. Please provide the minutes of each PID Management Process meeting for the period May 2006 through August 2007 at which the proposed PID/PAP changes were discussed.

Please respond by **December 12, 2007**. All states are requesting regional data. I look forward to hearing from you.

Sincerely,

Anne C. Boyle

Vice-chair

Qwest Regional Oversight Committee

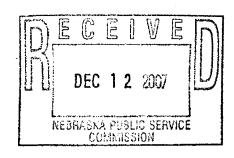
Jane Boyle

cc: Wendy Moser



Qwest 1801 California Street 10th Floor Denver, Colorado 80202 Phone 303 383-6618 Facsimile 303 298-8197

LAUREL L. BURKE Senior Attorney



December 11, 2007

Commissioner Ann Boyle Nebraska Public Service Commission 300 The Atrium, 1200 N Street P.O. Box 94927 Lincoln, NE 68509

RE: Regional Oversight Committee and request for further information regarding proposed Qwest Performance Assurance Plan changes

Ms. Boyle:

I recently received your request for additional information on behalf of the Qwest Regional Oversight Committee (ROC) and appreciate the interest you expressed in a reasoned and efficient approach. Qwest continues to believe that the approach we took to reach agreement on the proposed changes was also one that was reasoned and served efficiency given our experience with changes to the Qwest Performance Assurance Plans (PAPs) and Performance Indicator Definitions (PIDs) following initial implementation of the PAP in each of the fourteen in-region states.

As you know the Stipulated Agreement was reached as the result of many months of collaborative style negotiations; it was *jointly* filed more than five months ago in most of the 14 states with proposed changes to each of the Qwest Performance Assurance Plans (QPAP) as well as the Performance Indicator Definitions (PIDs).

In those five months, many things have occurred. In the vast majority of states, procedural opportunities afforded interested parties the ability to comment or otherwise intervene in the filing. Since then, five states have approved or allowed the filing to go into effect, one state has kept it pending under and open six month review docket to allow

Commissioner Ann Boyle Page 2 December 11, 2003

an opportunity for its review, and two other states opened dockets to review it. Oregon and Wyoming allowed the changes to take effect in September; Colorado approved the changes with an effective date in September, without hearing but following its two most recent reviews that had already evaluated many of the issues. Iowa and Idaho have also acted to allow the changes to take effect.

Of the remaining nine states, one, North Dakota, had kept its six month review docket open in anticipation of the filing. Two others, Arizona and Washington, opened dockets and have procedural schedules in place setting forth agreed upon timeframes for evaluation while Minnesota, has an open meeting scheduled to determine the resolution. For these states that have acted, Qwest prefers to continue to follow the orders that are in place and move forward accordingly. This leaves five states: Montana, Nebraska, New Mexico, South Dakota and Utah. Four have requested additional time for review that Qwest agreed to allow; we have not had a request for additional time or any notice of a proceeding from the fifth state. During those extensions, Qwest has spoken with many staff members and made every effort to answer questions posed.

To that end, Qwest has responded to more than 39 data requests from various states. Many of those requests contain information similar to, if not actually identical to, the information you requested in your November 26 letter. Each state QPAP varies at least somewhat from the others and the Stipulated Agreement reflects many of those variances, including for example the lack of a Tier 2 change in Idaho and Colorado since the type of modification the other state QPAPs were moving to under the agreement was already in place in those two states. And, turning to your other two procedural questions, Qwest has not implemented PAP (Exhibit K) changes in states that have not yet issued an order allowing the changes to go into effect in some way. In states where no procedure was adopted or a request for additional time received, the PID (Exhibit B) has gone into effect by operation of law. Qwest does confirm that it is offering only the versions of these exhibits that have gone into effect in an individual state. To the extent a Commission issues an order(s) relating to the Exhibits B and K, Qwest is willing to reflect those effective dates and order references in its history log on the website containing each state specific exhibit.

However, in addition to resource concerns associated with the volume of data you requested, one of the biggest factors affecting our response to your request is the confidentiality requirements under which Qwest must operate for each state and its obligation to protect CLEC data in its region. The ROC as an organization does not have the ability to protect any confidential data or information provided to the individual members, whether masking the identity or not. However, one of your requests may be filled at least in part with publicly posted information. PID Management Process information is available on the Qwest public website

http://www.qwest.com/wholesale/results/index.html; the PID PAP Agreements document dated June 28, 2007 linked on that page describes the changes and though do not

Commissioner Ann Boyle Page 3 December 11, 2003

substitute for meeting minutes may prove useful. To the extent individual states continue to feel the need for additional data; Qwest is willing to provide that but is only able to do so pursuant to a specific state request where the appropriate confidentiality protections are in place.

Singerely,

Laurel L. Burke